

# The Manufacturers' Investment Tax Credit: Should It Continue?

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## Main Points

- Between 1995 and 2000, California corporations claimed over \$2 billion worth of Manufacturers' Investment Tax Credits (MICs).
- Manufacturing employment has lagged far behind proponents' promises – even during the peak of the late 1990s expansion.
- Employment has declined significantly in sectors claiming a substantial fraction of the MIC. Oil and related employment has declined almost steadily since 1993. Oil companies claimed \$275 million in MICs between 1995 and 2000.
- Many of the firms and industries claiming the MIC also claim a significant volume of other state tax credits.
- In 2000, 112 high-income households (over \$200,000) used the MIC to avoid paying any state personal income tax.

# Tax Credits Not Necessarily Linked to Job Growth

## Corporations Claiming the Manufacturers' and R&D Tax Credits

	Manufacturers' Investment Credit				Research and Development Credit					
	Change in Average Annual Employment, 1993-2001	Total Claimed, 1995-2000 (in 000s)	Percent of Total Claimed	Credits Per Change in Employment	Total Claimed, 1995-2000 (in 000s)	Percent of Total Claimed	Credits Per Change in Employment	R&D and MIC Total Claimed (in 000s)	Credits Per Change in Employment	
Food and Kindred Products	6,800	\$ 170,280	8.2%	\$ 25,041	\$ 4,825	0.2%	\$ 710	\$ 175,105	\$ 25,751	
Chemicals and Allied Products (excl. Drugs)	(3,200)	\$ 63,071	3.0%	\$ (19,710)	\$ 13,756	0.7%	\$ (4,299)	\$ 76,827	\$ (24,008)	
Drugs	13,200	\$ 91,129	4.4%	\$ 6,904	\$ 229,659	10.9%	\$ 17,398	\$ 320,788	\$ 24,302	
Oil and Gas Refining and Related Industries	(5,800)	\$ 275,327	13.2%	\$ (47,470)	\$ 35	0.0%	\$ (6)	\$ 275,362	\$ (47,476)	
Electrical and Electronic Equipment	55,400	\$ 651,498	31.2%	\$ 11,760	\$ 1,160,872	54.9%	\$ 20,954	\$ 1,812,370	\$ 32,714	
Other Manufacturing	32,900	\$ 605,683	29.0%	\$ 18,410	\$ 275,957	13.1%	\$ 8,388	\$ 881,640	\$ 26,798	
Other		\$ 230,556	11.0%		\$ 428,276	20.3%		\$ 658,832		
Total	99,300	\$ 2,087,545	100.0%	\$ 21,023	\$ 2,113,380	100.0%	\$ 21,283	\$ 4,200,925	\$ 42,305	

Source: Franchise Tax Board and Employment Development Department

Note: Total only reflects change in Manufacturing employment.

# Most of the MIC Goes to Very Large Corporations

## Who Claims the MIC

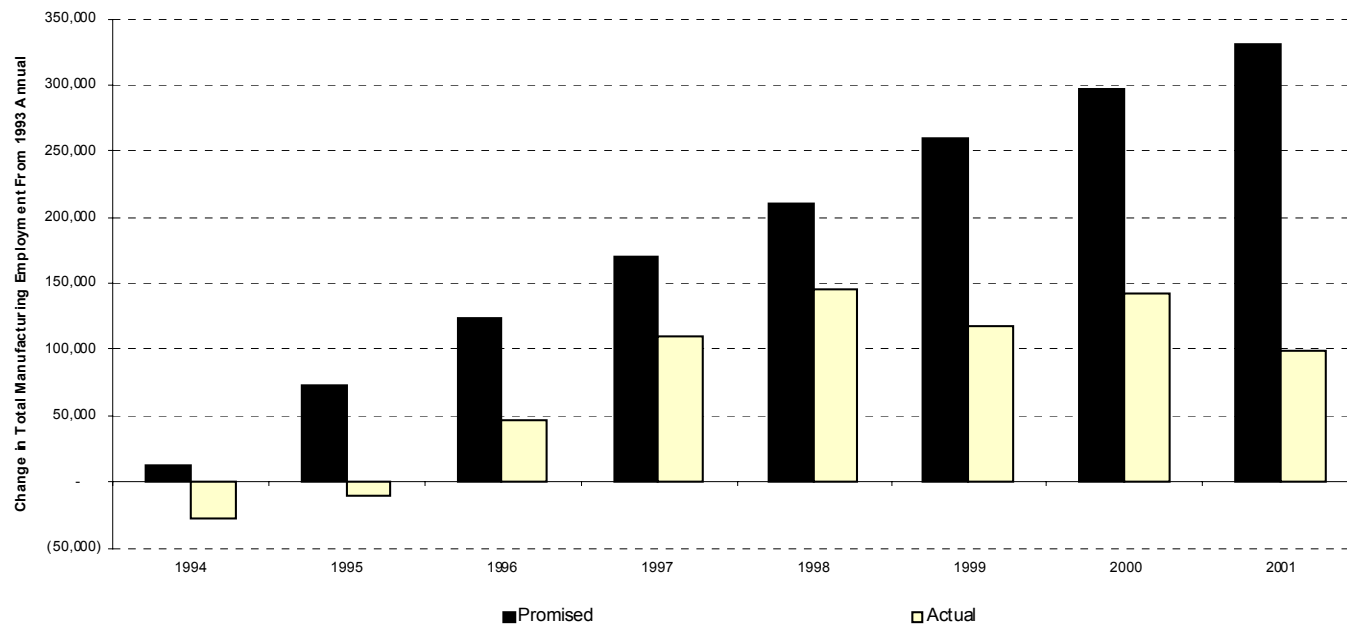
Tax Year 2000

Total Receipts	Number of Corporations	MIC Used (\$ in Millions)	Percent of Corporations Claiming MIC	Percent of MIC Claimed	Average Claim Per Corporation
Under \$1 Million	205	\$ 2	4.1%	0.5%	\$ 9,756
\$1 - \$5 Million	1,670	\$ 5	33.7%	1.2%	\$ 2,994
\$5 - \$10 Million	925	\$ 6	18.6%	1.5%	\$ 6,486
\$10 - \$50 Million	1,135	\$ 25	22.9%	6.1%	\$ 22,026
\$50 - \$100 Million	232	\$ 12	4.7%	2.9%	\$ 51,724
\$100 - \$250 Million	214	\$ 19	4.3%	4.6%	\$ 88,785
\$250 - \$500 Million	132	\$ 20	2.7%	4.9%	\$ 151,515
\$500 - \$1 Billion	122	\$ 36	2.5%	8.8%	\$ 295,082
One Billion Plus	326	\$ 285	6.6%	69.5%	\$ 874,233
<b>TOTAL</b>	<b>4,961</b>	<b>\$ 410</b>	<b>100.0%</b>	<b>100.0%</b>	<b>\$ 82,645</b>

	Number of Taxpayers	MIC Used (\$ in 000s)	Average Claim Per Taxpayer
Personal Income Tax Filers	6,164	47,016	\$ 7,628

Source: Franchise Tax Board

### Job Growth Has Consistently Lagged Proponents' Promises



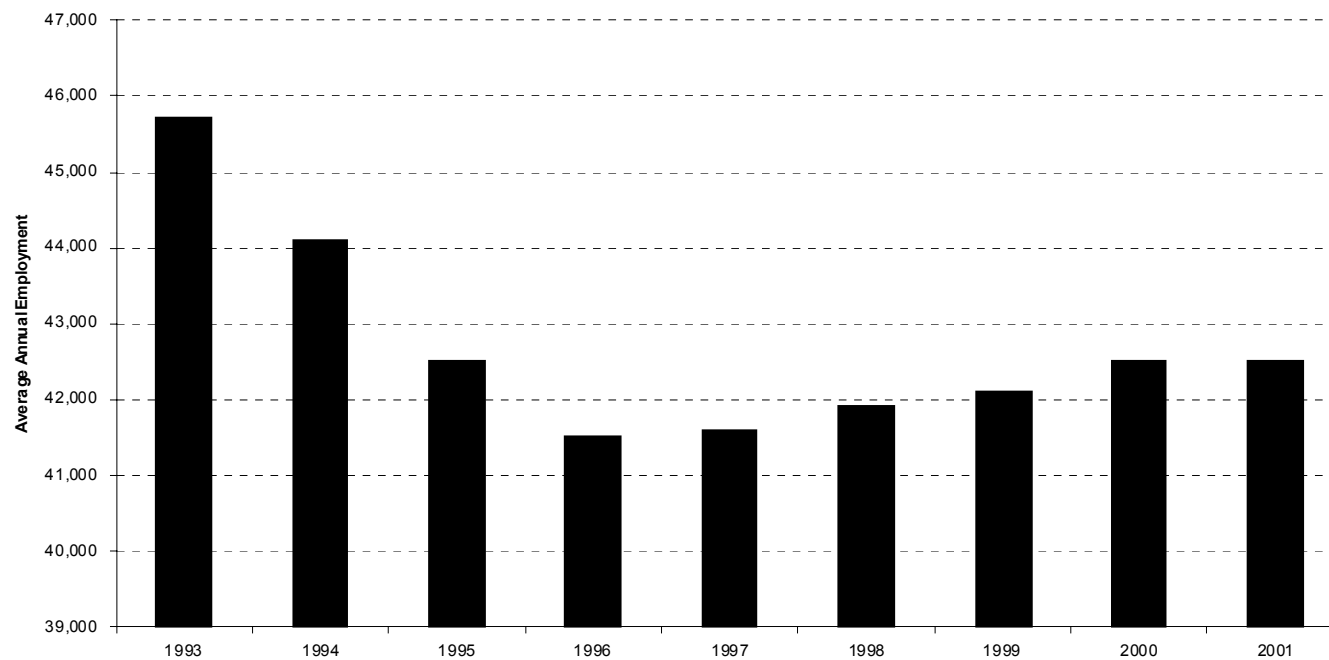
Source: AUS Consultants and Employment Development Department data.

**Oil and Related Employment Has Steadily Declined**  
**MIC Claimed 1995 - 2000 = \$275 Million**



Source: Employment Development Department

### Chemical and Allied Employment, Excluding Drugs, Down Significantly



Source: Employment Development Department.

## Share of Corporate Income Paid in Taxes Continues to Fall



Source: Franchise Tax Board.



# Most Corporations Pay Little Tax

California Corporations, 2000							
				Net Tax Corporations			
Net Income Taxable in California	Number of Corporations	Income (\$ on 000s)	Tax Assessed	Number of Corporations	Income	Tax Assessed	Avg Tax
Net Loss or No Income	206,448	\$ (74,021,530)	\$ 172,447				\$ 835
\$1 - \$200,000	255,781	\$ 9,062,967	\$ 466,478	87.8%	8.4%	8.1%	\$ 1,824
\$200,000 - \$499,999	18,226	\$ 5,681,772	\$ 210,313	6.3%	5.3%	3.7%	\$ 11,539
\$500,000 - \$999,999	7,524	\$ 5,280,007	\$ 197,735	2.6%	4.9%	3.4%	\$ 26,281
\$1,000,000 - \$4,999,999	7,560	\$ 16,030,719	\$ 658,929	2.6%	14.9%	11.5%	\$ 87,160
\$5,000,000 - \$9,999,999	1,124	\$ 7,833,477	\$ 375,393	0.4%	7.3%	6.5%	\$ 333,980
\$10,000,000 and over	1,181	\$ 63,992,213	\$ 3,831,339	0.4%	59.3%	66.7%	\$ 3,244,148
Total Corporations	497,844	\$ 33,859,625	\$ 5,912,634				
Positive Net Income	291,396	107,881,155	5,740,187	100.0%	100.0%	100.0%	\$ 19,699

Source: Franchise Tax Board.

# Options

- Allow the MIC to sunset. It has failed to meet the minimal performance standards provided in statute.
- Alternatively:
  - Cap the amount of credit a firm can claim. This would preserve benefits for smaller corporations and personal income tax filers.
  - Tie the credit to explicit, firm-level employment growth targets.
  - Close the loopholes created by the Board of Equalization.
  - Require firms claiming the MIC to disclose employment, wage, and benefit data so that the credit's effectiveness can be evaluated.